National Film Board of Canada

2014–2015

Quarterly Financial Report for the quarter ended September 30, 2014

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1. Introduction

The National Film Board (NFB) was created by an act of Parliament in 1939. A federal cultural agency within the Canadian Heritage portfolio, the NFB exists to produce and distribute original, innovative audiovisual works that raise awareness of Canadian values and viewpoints and of the issues of interest to Canadians, across the country and around the world. The NFB serves Canadians by producing and making accessible, in all regions of the country and on all available platforms, rich and diverse cultural content that reflects Canada's rapidly shifting demographic profile and that would not be produced otherwise. A brief description of the agency's activities for the current year can be found in *Part II of the Main Estimates*.

This quarterly report has been prepared by management as required by Section 65.1 of the *Financial Administration Act* and in the form and manner prescribed by the Treasury Board. The report should be read together with the *Main Estimates* as well as with *Canada's Economic Action Plan 2012* (*Budget 2012*).

2. Basis of Presentation

This quarterly report has been prepared by management using expenditure accounting. The accompanying Statement of Authorities includes the agency's spending authorities granted by Parliament and those used by the agency consistent with the Main Estimates and Supplementary Estimates for the 2014–15 fiscal year. This quarterly report has been prepared using a special-purpose financial reporting framework designed to meet financial information needs with respect to the use of spending authorities.

The authority of Parliament is required before monies can be spent by the Government of Canada. Approvals are given in the form of annually approved limits through the *Appropriation Act* or through legislation in the form of statutory spending authority for specific purposes.

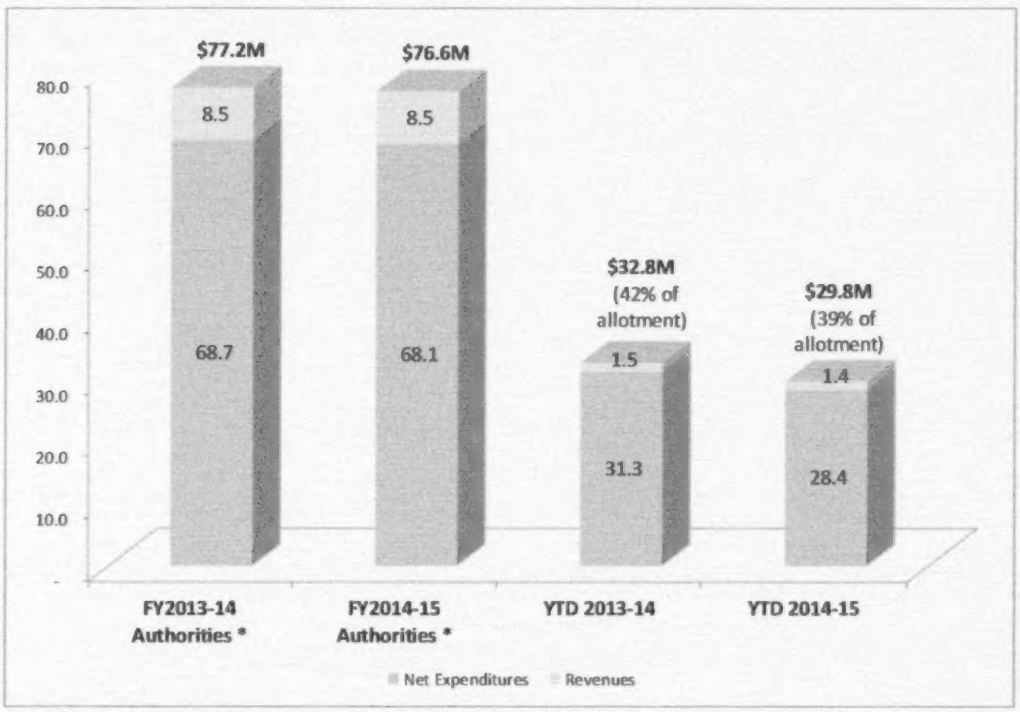
In 2014–15, the changes to departmental authorities were implemented through the Annual Reference Level Update, as approved by the Treasury Board and reflected in the 2014–15 *Main Estimates* tabled in Parliament.

The NFB uses the full accrual method of accounting to prepare its annual financial statements in accordance with Treasury Board accounting principles, which are consistent with generally accepted Canadian accounting principles for the public sector. However, the spending authorities voted by Parliament remain on an expenditure basis.

This quarterly report has not been subject to an external audit or review.

3. Highlights of Fiscal Quarter and Fiscal Year-to-date (YTD) Results

This section highlights the principal factors that contributed to the variances between projected and actual expenditures and expected and earned revenues for the period ended September 30, 2014.



** Includes only Authorities available for use and granted by Parliament at quarter-end*

The preceding graph shows the total budgetary authorities granted to the NFB for fiscal year 2014–15, with projected gross expenditures totalling $76.6 million. This is $0.6 million less than in the preceding fiscal year. This is the net result of savings measures announced in *Budget 2012* (see the "Budget 2012 Implementation" section of this report) with a reduction of $3.3 million and the 2013–14 carry-forward in the amount $2.7 million.

Table 2 – Departmental Budgetary Expenditures by Standard Object shows expenditures and revenues for the second quarter of 2014–15. Here is an overview of the main items to be noted.

Variance in Revenues

Second quarter actual revenues were comparable with last year's figure for the same period.

Variance in Expenditures

Gross expenditures for the second quarter of 2014–15 were $0.6 million lower than in the same quarter of the preceding year, totalling $15.7 million. The variances are primarily due to salary and transport and communications expenses.

During the second quarter of 2013–14, unionized employees continued to cash out their severance pay—for an amount totalling $1.3 million—following the announcement that this pay would cease to accumulate. However, this effect is reduced by the lump sum granted to employees in 2014–15 as part of the transition to the payroll payment system in arrears.

Transport and communications expenses decreased compared to the previous year. The NFB continues its efforts to control expenditures in travel, hospitality, conferences and events, and promotes the use of digital communication and collaboration tools. Also, the use of cell phones instead of land lines is now privileged and provides substantial savings.

The other types of expenditures by standard object followed historical trends.

4. Risks and Uncertainties

The external risks that the NFB faces remain unchanged. Foremost among them in its organizational risk profile is a decline in its revenues and in its spending authorities from Parliament. Year after year, the NFB and the other cultural agencies in the audiovisual sector have been underscoring the decline in broadcast revenues and the impact of the transition from the traditional to the digital distribution model.

That is why, in this environment, the NFB is working actively to develop new modes of financing and to take advantage of new distribution platforms to ensure its financial independence and secure the resources that it needs to fully accomplish its mandate. Starting in 2014–15, the NFB wants to develop more effective advertising campaigns to market its content.

As a public agency, the NFB demonstrates a strong, sustained commitment to the education sector. The NFB not only will develop more content for education professionals and expand its base of CAMPUS subscribers in Canada, but will also strengthen these efforts in the U.S. and international markets.

Lastly, the NFB's efforts to relocate its Montreal headquarters finally bore fruit this quarter. On September 25, 2014, the Minister of Canadian Heritage announced that the NFB will be moving to a brand-new building to be constructed in Montreal's Quartier des Spectacles by fall 2017.

5. Significant Changes Related to Operations, Personnel and Programs

In addition to the implementation of the 2012 federal budget, which has resulted in a permanent 10% ($6.7 million) reduction in its Parliamentary spending authorities since April 1, 2014, the NFB will have to fund the salary revisions for 2014–15 and 2015–16 (totalling $1.7 million) out of its own operating budget.

6. Budget 2012 Implementation

This section provides an overview of the savings measures announced in *Budget 2012* that have been implemented to refocus government and programs, make it easier for Canadians and businesses to deal with their government, and modernize and reduce the back office. The NFB has applied reductions and restraints to streamline and focus its operations so that it can continue to deliver quality as it fulfills its important mandate.

The original plan, which called for savings of $6.7 million (10% of the NFB's budget) starting in fiscal 2014–15, has been carried out, with the exception of information technology (IT) support through shared government services and the expected savings from the transition from selling physical products to selling virtual ones. To date, the NFB is still awaiting a decision regarding the takeover of support for its corporate IT services by Shared Services Canada, while the conversion of educational institutions to the technological infrastructures needed to accommodate delivery of digital content is progressing well. For this reason, in 2014–15, the store for physical products will be reduced so as to accommodate only those clients who still do not have access to the appropriate infrastructure.

The principal savings measures that have been taken are as follows.

- On September 1, 2012, closure of individual screening booths and screening rooms at the Toronto Mediatheque and Montreal CineRobotheque. Educational workshops will continue to be offered at headquarters in Montreal and on the usual premises in Toronto.
- On April 1, 2012, elimination of the "Festivals and Events" component of the Grants and Contributions Program.
- A slight reduction in the amounts allocated for the production of audiovisual works, representing 1% of the NFB's total budget.
- Consolidation of administrative services in regional offices.

- Implementation of new work processes in all NFB divisions, particularly in linguistic services management, rights management, and general administration. The NFB will continue to rationalize its space usage and expects to save additional amounts.

Despite the delays in implementing two initiatives that have not been completed to date, the NFB will absorb the impact of the cost reductions through its ongoing program of internal efficiencies.

The NFB has received no additional funding to implement the above measures.

Approved by:

Claude Joli-Coeur Government Film Commissioner	Luisa Frate Director General, Finance, Operations and Technology (Chief Financial Officer)
Montreal, Canada	Montreal, Canada
December 12, 2014	December 12, 2014

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Table 1 : Statement of Authorities ***(unaudited)***

	Fiscal Year 2014-2015			Fiscal Year 2013-2014		
(dollars)	Total available for use for the year ending March 31, 2015 *	Used during the quarter ended September 30, 2014	Year-to-date used at the quarter-end	Total available for use for the year ending March 31, 2014 * **	Used during the quarter ended June 30, 2013 **	Year-to-date used at the quarter-end **
Vote 70 - Operating expenditures	68,091,415	14,975,432	28,369,644	68,656,762	15,539,650	31,290,924
Total Budgetary authorities	68,091,415	14,975,432	28,369,644	68,656,762	15,539,650	31,290,924
Total authorities	**68,091,415**	**14,975,432**	**28,369,644**	**68,656,762**	**15,539,650**	**31,290,924**

** Includes only Authorities available for use and granted by Parliament at quarter-end.*

*** These figures have been restated to consider the revolving fund.*

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Table 2 : Departmental budgetary expenditures by Standard Object *(unaudited)*

	Fiscal Year 2014-2015			Fiscal Year 2013-2014		
(dollars)	Planned expenditures for the year ending March 31, 2015	Expended during the quarter ended September 30, 2014	Year-to-date used at quarter-end	Total available for use for the year ending March 31, 2014 *	Used during the quarter ended September 30, 2013 *	Year-to-date used at quarter-end *
Expenditures:						
Personnel	40,921,448	10,618,139	19,758,659	41,514,709	11,040,929	21,335,370
Transportation and communications	3,537,804	551,217	942,911	3,534,312	671,571	1,249,661
Information	593,370	72,248	119,025	602,774	56,497	147,580
Professional and special services	15,049,244	2,043,280	3,455,035	15,034,391	1,944,176	3,523,514
Rentals	8,940,185	1,659,073	3,428,792	8,931,361	1,722,866	4,471,264
Repair and maintenance	1,488,505	232,192	1,033,596	1,487,036	202,613	884,203
Utilities, materials and supplies	1,244,367	140,857	297,175	1,243,139	152,866	349,581
Acquisition of machinery and equipment	3,759,014	228,121	429,678	3,755,304	265,719	436,619
Transfer payments	89,583	34,375	39,375	86,748	76,500	76,500
Other subsidies and payments	920,342	156,945	288,719	919,433	143,021	343,337
Total gross budgetary expenditures	**76,543,861**	**15,736,447**	**29,792,966**	**77,109,208**	**16,276,758**	**32,817,629**
Less Revenues netted against expenditures:						
Revenues credited to the vote	8,452,446	761,015	1,423,322	8,452,446	737,108	1,526,705
Total Revenues netted against expenditures	**8,452,446**	**761,015**	**1,423,322**	**8,452,446**	**737,108**	**1,526,705**
Total net budgetary expenditures	**68,091,415**	**14,975,432**	**28,369,644**	**68,656,762**	**15,539,650**	**31,290,924**

** These figures have been restated to consider the revolving fund.*